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BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

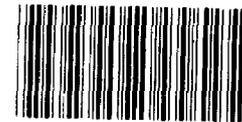
Examination Of Financial Statements Of The Federal Prison Industries, Inc., For The Fiscal Year 1979

AGC 06 714

The financial statements of Federal Prison Industries, Inc., present fairly its financial position at September 30, its financial position for the year then ended, in conformity with both generally accepted accounting principles and the accounting principles prescribed by the Comptroller General applied on a basis consistent with that of the preceding year.



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GGD-80-48
MAY 27, 1980

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-198500

To the President of the Senate and the
Speaker of the House of Representatives

This report summarizes the results of our examination
of the financial statements of the Federal Prison Indus-
tries, Inc., Department of Justice, for the fiscal year
ended September 30, 1979. *AGC00037*

We made our examination pursuant to the Government
Corporation Control Act (31 U.S.C. 841).

We are sending copies of this report today to the
Director, Office of Management and Budget, and to the
Attorney General.

James P. Beards
Comptroller General
of the United States

D I G E S T

/Federal Prison Industries, Inc. conducts industrial operations in Federal penal and correctional institutions to (1) reduce idleness among inmates and (2) provide training in skills that can be used to obtain jobs upon release. /

The Corporation has 81 factories in 37 institutions and manufactures a large variety of products which are sold only to Federal agencies. Sales in fiscal year 1979 were \$102.8 million, an increase of \$8.1 million over the prior year. Because the cost of goods sold increased by \$10.0 million, gross profit decreased, declining to 16.1 percent of sales. Net profit decreased by \$1.8 million. The decrease in net profit would have been greater had vocational training expenses not been reduced by \$1.3 million.

/Corporation activities are audited by its own internal audit staff and by the Internal Audit Staff of the Office of Management and Finance, Department of Justice. / The Corporation internal audit staff was established in September 1978 and performed 23 audits in fiscal year 1979.

/The Department of Justice normally makes about 12 audits of Corporation activities each year. GAO found that the efforts of the two audit groups were not fully coordinated and that, as a result, there was duplication and overlap in audit coverage. Both groups agreed to improve coordination of their audit efforts. /

GGD-80-48

The Corporation needs to improve its management of the factories. GAO found problems in pricing products, purchasing materials, managing inventory, and recording and reporting manufacturing costs. These problems, though not significant enough to cause GAO to qualify its opinion on the financial statements, affect the efficiency of Corporation operations and its net profit. GAO believes the problems it identified are attributable, in large part, to inexperienced personnel.

GAO performed an examination of the financial statements for fiscal year 1979 and a limited review of the statements for fiscal years 1977 and 1978. In GAO's opinion, the Corporation's fiscal year 1979 financial statements present fairly its financial position at September 30, 1979, and the results of its operations and the changes in its financial position for the year then ended, in conformity with both generally accepted accounting principles and the accounting principles prescribed by the Comptroller General applied on a basis consistent with that of the preceding year. GAO does not express an opinion on the financial statements for fiscal year 1977 and 1978 because of the limited scope of its review of these statements. GAO is not aware of any material modifications that should be made to the fiscal year 1977 and 1978 financial statements submitted with the Corporation's annual reports.

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ABBREVIATIONS

FPI Federal Prison Industries, Inc.

GAO General Accounting Office

CHAPTER 1

INTRODUCTION

The Federal Prison Industries, Inc. (FPI), a wholly owned Government corporation created pursuant to the act of June 23, 1934, (18 U.S.C. 4121) operates within the Department of Justice under the general direction and supervision of the Attorney General. FPI conducts industrial operations in Federal penal and correctional institutions, employing physically fit inmates in order to reduce idleness and to help the inmates acquire occupational knowledge and skills that will enable them to earn a livelihood upon release.

A board of six directors, appointed by the President of the United States, establishes and monitors FPI policies. Corporation officers are the Commissioner, Associate Commissioner, and Secretary/Deputy Associate Commissioner.

The industrial operations of FPI are organized into six product divisions (see app. III). Each division is responsible for a specific product line, or a number of related lines, and for several factories. As of September 30, 1979, FPI had 81 factories in 37 institutions. Products and services are sold only to Federal agencies; major buyers include the Department of Defense, Veterans Administration, General Services Administration, and the U.S. Postal Service.

The Department of Justice Authorization Act for fiscal year 1979 directed the Attorney General to report to the Congress on or before September 1, 1979, on the status of FPI. The report was to include a long-range plan for improvement of meaningful employment training and methods of employing greater numbers of inmates in the program. The act provided that the report could include recommendations for legislation.

The Attorney General's August 15, 1979, report stated:

"At present, every available Federal inmate who wants industrial work is employed by Federal Prison Industries (FPI). Of those employed, a large number are learning and practicing skills which the Department of Labor says private industry will need in the future. At the same time, a smaller number of FPI operations utilize technologies that have been in practice a number of years. These industries, especially textiles, concentrate on teaching inmates good work habits."

The report pointed out that during the period from January 1974 to December 1977, 27 new industrial operations were started, new products were added, employment increased from 5,600 to 6,450, and major building or renovation projects were started or authorized at 20 locations.

Subsequently, the inmate population declined. The report stated that FPI and the Bureau of Prisons plan to employ more inmates, possibly by reducing institutional maintenance tasks and establishing double shifts. In addition, the report discussed training and the use of private industry personnel as consultants. The report stressed that future emphasis will be on

- increased training,
- development of new technologies,
- major investment in new machines, and
- a broadened market base.

The Attorney General's report made no recommendation for legislation.

CHAPTER 2

RESULTS OF OPERATIONS

Sales to other Government agencies in fiscal year 1979 were \$102,762,305--an increase of \$8,088,295 over fiscal year 1978. The cost of goods sold, however, increased by \$10,009,955, causing a reduction of \$1,921,660 in gross profit. Gross profit in fiscal year 1979 declined to 16.1 percent of sales.

Net profit was \$5,532,959, a decrease of \$1,805,639. This decrease would have been greater had vocational expenses not been reduced by \$1,335,689.

The Corporation's funding of vocational training is being phased out. At a meeting of the Board of Directors in April 1972, it was resolved that

"vocational training programs should be financed with appropriated funds; to the extent feasible, appropriations should be sought to defray vocational training costs currently funded by FPI and the operation of vocational training programs should be part of the Bureau of Prisons administration and appropriations."

As of October 1, 1979, vocational training units at 16 locations had been transferred to the Bureau of Prisons for administration.

Certain administrative expenses (charges related to the general management of the Corporation as a whole) are subject to congressional limitations. The Corporation fell well within the limitation in fiscal year 1979, as it spent only \$1,706,963 of the \$2,041,000 authorized. The congressional limitation for fiscal year 1980 is \$2,062,000.

CHAPTER 3

AUDITS OF FPI

FPI activities are audited by its own audit staff and by the Internal Audit Staff of the Office of Management and Finance, Department of Justice. The Justice staff makes about 12 audits each year, performing financial audits and program reviews of individual institutions and program reviews of divisions. The FPI internal audit staff was established in September 1978. During fiscal year 1979, 2 auditors were permanently assigned to the staff and performed 23 audits, assisted by personnel from various factories.

As part of our audit, we reviewed the work of the audit groups and found it to be both accurate and reliable. As a result, we were able to reduce the scope of our work. We noted, however, that the efforts of the two audit groups were not fully coordinated and that, as a result, there was duplication and overlap in audit coverage. Both groups agreed to better coordinate their audit efforts in the future.

Public Law 93-604 provides that, effective July 1, 1974, each wholly owned Government corporation shall be audited by GAO at least once every 3 years. Previously, we conducted annual audits. Effective with fiscal year 1977, we placed FPI on a 3-year audit cycle. Our approach for the 3-year cycle, ending with fiscal year 1979, was to perform limited reviews of the financial statements for fiscal years 1977 and 1978 and perform an examination of the financial statements for fiscal year 1979.

CHAPTER 4

MANAGEMENT OF FPI

FPI needs to improve management of its factories. Deficiencies exist in pricing products, purchasing materials, managing inventory, and recording and reporting manufacturing costs. These problems, although not significant enough to cause us to qualify our opinion on the financial statements, affect the efficiency of FPI operations and its net profit. We believe the problems are attributable, in large part, to inexperienced personnel.

Our observations are summarized below. Further details on the nature and extent of the problems and our recommendations for corrective action will be provided directly to the Commissioner, FPI.

PRICING

The six division directors are responsible for setting prices for products. Federal law prescribes that the prices shall not exceed market, while FPI regulations provide that they shall be near market. Where market prices cannot be established, prices are to be based on cost. Generally, divisions do not adequately research market prices and, accordingly, most prices are based on cost.

MANUFACTURING COSTS

FPI regulations require estimates for all products and controls to ensure accurate recording of costs by job. Actual costs per job are to be compared to estimates, variances analyzed, and estimates changed, if unrealistic. Justice and FPI internal auditors have frequently reported the failure of factories to follow such procedures. The auditors reported instances in which cost estimates were not made, costs were recorded inaccurately, variances were not analyzed, or estimates were not changed. In our examination we found similar problems.

INVENTORY

Internal auditors frequently reported that inventory values were inaccurate and that obsolete and slow-moving items were included in inventory. We found similar conditions and also found that damaged goods were valued at cost, not at their true value.

We also noted that finished goods inventory valuations were affected by problems involving overhead rates and pricing practices. According to FPI accounting policy, finished goods inventory is valued at the lower of cost or 95 percent of selling price. This policy, which assumes that selling price is close to market, is consistent with the generally accepted accounting principle that inventory be valued at the lower of cost or market. With regard to cost, we found that overhead rates were often unrealistic thereby resulting in misstatements of inventory costs. Further, as discussed above, selling prices often are not based on cost. These problems generally resulted in incorrect valuations of finished goods inventories.

WHY PROBLEMS OCCURRED

Many of the problems occurred because a large number of FPI personnel were inexperienced in their roles. Further, FPI has taken little action to correct problems reported repeatedly by internal auditors over the past few years-- even when a problem, such as a factory's failure to analyze variances, hinders effective factory management. With regard to problems identified by internal auditors, the Assistant Commissioner, in a September 26, 1979, memorandum to all Superintendents of Industries said, "Our credibility and integrity are in serious question and our complacent attitude regarding the importance of audits will not be tolerated."

CHAPTER 5

SCOPE OF EXAMINATION AND

OPINION ON FINANCIAL STATEMENTS

We have examined FPI's balance sheet as of September 30, 1979, and the related statements of income and expense, retained earnings, and changes in financial position for the year then ended. Our examination was made in accordance with the Comptroller General's standards for auditing financial transactions, accounts, and reports of governmental activities, which include generally accepted auditing standards. Our examination included such tests of the accounting records and other auditing procedures as we considered necessary in the circumstances.

Our examination was conducted at

--The central office in Washington, D.C.

--Six division offices: Textile, Atlanta, Georgia; Shoe/Brush, Leavenworth, Kansas; Data/Graphics, Washington, D.C.; Wood/Plastics, Washington D.C.; Electronics, Washington, D.C; and metals, Washington, D.C.

--Eight institutions: Atlanta, Georgia; Alderson, West Virginia; Safford, Arizona; Petersburg, Virginia; Terminal Island, California; Fort Worth, Texas; Tallahassee, Florida; and Texarkana, Texas.

Our review of FPI's fiscal years 1977 and 1978 financial statements was limited to inquiries concerning practices and procedures followed during those periods to ensure that they conformed to Comptroller General accounting principles; analytical comparisons of financial data with data for comparable periods to note consistency and conformity with predictable patterns on the basis of the FPI's experience; reviews of reports by internal auditors and resultant management actions; and reviews of the methods and procedures followed in compiling and consolidating data submitted by the individual factories, to ensure that such data were consolidated properly. Our review was performed solely at the central office in Washington, D.C.

In our opinion, FPI's fiscal year 1979 financial statements present fairly its financial position at September 30, 1979, and the results of its operations and the changes in its financial position for the year then ended, in conformity with both generally accepted accounting principles and the accounting principles prescribed by the Comptroller General applied on a basis consistent with that of the preceding year.

Because of the limited scope of our work for fiscal year 1977 and 1978, we do not express an opinion on the financial statements for those fiscal years. We are not aware of any material modifications that should be made to the fiscal year 1977 and 1978 financial statements submitted with FPI's annual reports.

FEDERAL PRISON INDUSTRIES, INC.
BALANCE SHEET
AT SEPTEMBER 30, 1979 and 1978

<u>Assets</u>	<u>1979</u>	<u>1978</u>	<u>Difference</u> <u>Increase/Decrease*</u>
Current Assets:			
Disbursing cash:			
Operations	\$ 9,965,482	\$ 8,759,957	\$ 1,205,525
New industrial fund	3,662,291	7,430,859	3,768,568*
Special deposits	2,200	1,390	810
Accounts receivable (principally from Govern- ment agencies) (Note 2)	14,419,736	11,173,176	3,246,560
Inventories (at cost) (Note 3)			
Finished goods	10,048,527	9,855,233	193,294
Work-in-process	7,782,636	8,130,065	347,429*
Materials and supplies	<u>26,490,308</u>	<u>23,326,063</u>	<u>3,164,245</u>
Total current assets	<u>72,371,180</u>	<u>68,676,743</u>	<u>3,694,437</u>
Plant and equipment (at cost or appraised value):			
Machinery and equipment	27,176,816	26,273,973	902,843
Building and improvements	<u>30,167,672</u>	<u>28,032,192</u>	<u>2,135,480</u>
	<u>57,344,488</u>	<u>54,306,165</u>	<u>3,038,323</u>
Less accumulated depreciation:			
Machinery and equipment	15,047,627	14,662,147	385,480
Building and improvements	<u>10,811,991</u>	<u>10,011,155</u>	<u>800,836</u>
	<u>25,859,618</u>	<u>24,673,302</u>	<u>1,186,316</u>
	<u>31,484,870</u>	<u>29,632,863</u>	<u>1,852,007</u>
Construction-in-process	<u>1,774,907</u>	<u>1,502,352</u>	<u>272,555</u>
	<u>33,259,777</u>	<u>31,135,215</u>	<u>2,124,562</u>
Sundry assets	<u>1,201,353</u>	<u>826,451</u>	<u>374,902</u>
Total assets	<u>\$106,832,310</u>	<u>\$100,638,409</u>	<u>\$ 6,193,901</u>

SCHEDULE 1

SCHEDULE 1

<u>Liabilities and Capital</u>	<u>1979</u>	<u>1978</u>	<u>Difference Increase/Decrease*</u>
Current Liabilities:			
Accounts payable	\$ 5,111,106	\$ 4,572,014	\$ 539,092
Accrued payroll	1,894,572	1,660,402	234,170
Other accrued liabilities	1,535,190	1,401,018	134,172
Employees' accrued leave	1,654,722	1,545,506	109,216
Contingent liability for price adjustment (Note 4)	-0-	530,289	530,289*
Deposit fund liability	<u>2,200</u>	<u>1,390</u>	<u>810</u>
Total current liabilities	<u>10,197,790</u>	<u>9,710,619</u>	<u>487,171</u>
Capital:			
Initial investment of U.S. Government	4,176,040	4,176,040	-0-
Capital contributions received from other Government agencies, net	5,199,868	5,026,097	173,771
Retained earnings	<u>87,258,612</u>	<u>81,725,653</u>	<u>5,532,959</u>
Total capital	<u>96,634,520</u>	<u>90,927,790</u>	<u>5,706,730</u>
Total liabilities and capital	<u>\$106,832,310</u>	<u>\$100,638,409</u>	<u>\$6,193,901</u>

*The notes on pages 14 to 18 are an integral part of the financial statements.

FEDERAL PRISON INDUSTRIES, INC.
STATEMENT OF INCOME AND EXPENSE
FOR FISCAL YEARS ENDED SEPTEMBER 30, 1979 AND 1978

	<u>1979</u>	<u>1978</u>	<u>Difference</u> <u>Increase/Decrease*</u>
Sales to other Government agencies	\$102,762,305	\$ 94,674,010	\$ 8,088,295
Costs of goods sold	<u>86,213,301</u>	<u>76,203,346</u>	<u>10,009,955</u>
Gross profit	16,549,004	18,470,664	1,921,660*
Selling Expenses:			
Freight	435,800	532,040	96,240*
Samples	<u>60,561</u>	<u>52,576</u>	<u>7,985</u>
	<u>496,361</u>	<u>584,616</u>	<u>88,255*</u>
Product division expenses	1,765,229	1,683,821	81,408
Administrative expenses (Note 6)	1,719,363	1,512,584	206,779
Workmen's compensation (Note 7)	419,301	421,228	1,927*
Other expenses (Note 8)	<u>1,308,190</u>	<u>585,762</u>	<u>722,428</u>
Total operating expenses	<u>5,708,444</u>	<u>4,788,011</u>	<u>920,433</u>
Income from operations	10,840,560	13,682,653	2,842,093*
Other income			
Miscellaneous sales	567,736	485,996	81,740
Sundry income	<u>542,298</u>	<u>130,741</u>	<u>411,557</u>
	1,110,034	616,737	493,297
Loss on disposition of assets	<u>340,677</u>	<u>54,216</u>	<u>286,461</u>
Income before non-operating expenses	<u>11,609,917</u>	<u>14,245,174</u>	<u>2,635,257*</u>
Christmas packages (Note 10)	78,126	75,490	2,636
Meritorious compensation to inmates (Note 10)	2,966,469	2,495,905	470,564
Accident compensation (Note 10)	139,895	107,024	32,871
Vocational expenses (Note 9)	<u>2,892,468</u>	<u>4,228,157</u>	<u>1,335,689*</u>
Total non-operating expenses	<u>6,076,958</u>	<u>6,906,576</u>	<u>829,618*</u>
Net income	<u>\$ 5,532,959</u>	<u>\$ 7,338,598</u>	<u>\$ 1,805,639*</u>

The notes on pages 14 to 18 are an integral part of the financial statements.

FEDERAL PRISON INDUSTRIES, INC.
STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR FISCAL YEARS ENDED SEPTEMBER 30, 1979 AND 1978

	<u>1979</u>	<u>1978</u>	<u>Difference</u> <u>Increase/Decrease*</u>
Funds provided by:			
Sales of products and services	\$102,762,305	\$ 94,674,010	\$ 8,088,295
Miscellaneous sales	5,839,588	2,973,386	2,866,202
Sundry income	542,298	130,741	411,557
Capital contributions	<u>173,771</u>	<u>513,398</u>	<u>339,627*</u>
Total funds provided	<u>109,317,962</u>	<u>98,291,535</u>	<u>11,026,427</u>
Funds used for:			
Cost of goods and services sold, net of depreciation	84,065,632	74,153,229	9,912,403
Administrative expenses, net of depreciation (Note 6)	1,706,963	1,500,146	206,817
Product division expenses, net of depreciation	1,753,576	1,650,211	103,365
Cost of miscellaneous sales	5,271,852	2,487,390	2,784,462
Other operating expenses	2,223,852	1,591,605	632,247
Loss on disposal of assets	340,677	54,216	286,461
Acquisition of fixed assets	4,525,505	4,681,731	156,226*
Christmas packages to inmates	78,126	75,490	2,636
Meritorious compensation to inmates	2,966,469	2,495,905	470,564
Accident compensation	139,895	107,024	32,871
Vocational expenses, net of depreciation (Note 9)	<u>2,662,709</u>	<u>3,905,210</u>	<u>1,242,501*</u>
Total funds used	<u>105,735,256</u>	<u>92,702,157</u>	<u>13,033,099</u>
Increase in working capital	<u>\$ 3,582,706</u>	<u>\$ 5,589,378</u>	<u>\$ 2,006,672*</u>
Analysis of changes in working capital			
Increase (Decrease) in current assets:			
Funds with U.S. Treasury	(2,562,233)	1,806,433	(4,368,666)
Accounts receivable	3,246,560	(65,338)	3,311,898
Inventories:			
Finished goods	193,294	2,685,026	(2,491,732)
Work-in-process	(347,429)	1,591,898	(1,939,327)
Materials and supplies	3,164,245	1,612,693	1,551,552
Other	374,902	227,174	147,728

	<u>1979</u>	<u>1978</u>	<u>Difference</u> <u>Increase/Decrease*</u>
(Increase) decrease in current liabilities:			
Accounts payable	\$ (539,092)	\$ (1,340,029)	\$ 1,800,937
Accrued payroll	(234,170)	(347,153)	(112,983)
Other liabilities	(244,200)	(108,357)	135,843
Contingent liability for price adjustment	<u>530,829</u>	<u>(472,969)</u>	<u>1,003,798</u>
Increase in working capital	<u>\$ 3,582,706</u>	<u>\$ 5,589,378</u>	<u>\$ 2,006,672*</u>

The notes on pages 14 to 18 are an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Federal Prison Industries, Inc. include the accounts of the central office and the industrial facilities at 37 penal and correctional institutions. Appropriate eliminations are made for interindustry transactions and profits therefrom.

The straight line method of depreciation is used for all depreciable assets. Rates of depreciation are generally based on useful life guidelines established in Revenue Procedures 62-21, issued by the Treasury Department, Internal Revenue Service.

Raw materials inventory is recorded at actual cost or appraised value for donated material.

Work-in-process inventory is recorded at actual cost determined by one of the following methods: Process costing, or standard costing, depending upon the type of industry.

Finished goods inventory is stated at the lower of cost or 95 percent of selling price.

A change in accounting practice for Fiscal Year 1979 raised the minimum for capitalizing machinery and equipment from \$200 to \$300.

Fixed Assets are defined as Machinery and Equipment costing \$300 or more and Building and Improvements costing \$2,000 or more. Both classes must be depreciated over 4 years or more. When Building Improvements are repair, replacement or cosmetic in nature, costs are charged over a period shorter than 4 years or when incurred.

2. ACCOUNTS RECEIVABLE

Accounts Receivable consist primarily of amounts due from Government agencies (e.g., Post Office, General Services Administration and Department of Defense). Accounts that were due 90 days or more totaled approximately \$1,593,500 (11%) as of September 20, 1979 as compared to \$725,000 (6%) for September 30, 1978.

3. MATERIALS AND SUPPLIES INVENTORY

The Material and Supplies inventory includes an adjustment for the mark up within interindustry inventory on hand September 30, 1979, in the amount of \$271,907. The mark up is calculated by using the proportion of interindustry sales to the cost of those sales. Included in the Materials and Supplies and Finished Goods inventories are 1,375 slow moving items valued at \$5,383,743 or 12% of total inventory. \$3,000,000 of this amount consists of blankets manufactured for the Department of Defense which they had not yet purchased. Not including this item, reduces slow moving items to 5% of total inventory.

4. CONTINGENT LIABILITY FOR PRICE ADJUSTMENTS

During Fiscal Year 1979 a final settlement of \$530,289 was paid on Fiscal Year 1978 shoe contract. No contingent liability was set up or used for Fiscal Year 1979.

5. COST OF GOODS AND SERVICES SOLD

Cost of goods and services sold consists of material net of discounts, direct inmate labor or overhead.

	<u>Fiscal Year 1979</u>	<u>Fiscal Year 1978</u>
Material	\$49,021,601	\$46,238,186
Labor	5,055,857	4,755,366
Overhead	31,999,708	29,486,718
	<u>\$86,077,166</u>	<u>\$80,480,270</u>
Add Work in Process, beginning	8,130,065	6,538,167
Less Work in Process, ending	<u>7,782,636</u>	<u>8,130,065</u>
Cost of Goods and Services	86,424,595	78,888,372
Add Finished Goods, beginning	9,855,233	7,170,207
Less Finished Goods, ending	<u>10,048,527</u>	<u>9,855,233</u>
Cost of Goods and Services sold	\$86,231,301	\$76,203,346

6. ADMINISTRATIVE EXPENSE

Certain administrative expenses related to the general management of the corporation are subject to a congressional limitation.

	<u>Fiscal Year 1979</u>	<u>Fiscal Year 1978</u>
Amounts subject to congressional Limitation:		
Salaries	\$ 912,585	\$ 880,672
Travel	121,479	74,463
Rent for Washington Office	27,793	34,069
Telephone	12,212	14,805
Printing and reproduction	161,837	178,325
Auditing (1)	318,483	213,750
Miscellaneous	<u>152,574</u>	<u>104,062</u>
Total Congressional Limitation	1,706,963	1,500,146
Plus Depreciation	<u>12,400</u>	<u>12,438</u>
	\$1,719,363	\$1,512,584

Congressional Limitation:

1979 - \$2,041,000

1978 - \$1,947,000

(1) The amounts reported represent charges for internal functions performed by the office of Internal Audit Department of Justice in the amount of \$213,783 and an accrual of \$104,700 for The Tri-annual audit by General Accounting Office which is being conducted in Fiscal Year 1979. These amounts do not include our own audit costs.

7. WORKMEN'S COMPENSATION

The amount of \$419,301 shown for the Fiscal Year 1979 represents normal accruals for Fiscal Year 1979. The actual amount paid for the period June 1978 thru June 1979 was \$419,301. Also included is an accrual of \$120,000 for the last quarter.

8. OTHER EXPENSE

These are expenses not related to the production of the product and are classified separately.

	<u>Fiscal Year 1979</u>	<u>Fiscal Year 1978</u>
Survey of Inventories	\$ 280,649	\$ 360,070
Reimbursable Salaries	-0-	5,448
Factory Closing and Organization Expense	122,423	1,796
Prior Period Expenses	731,802	145,901
Miscellaneous	159,930	60,417
Incentive Awards	13,386	12,130

9. VOCATIONAL EXPENSE

	<u>Fiscal Year 1979</u>	<u>Fiscal Year 1978</u>
Personnel Compensation	\$1,881,443	\$2,603,407
Personnel Benefits	192,036	272,527
Travel and Trans. of Persons	47,927	46,431
Transportation of Things	18,707	12,224
Rent, Communications, Utilities	95,302	209,982
Printing and Reproduction	32,591	111,659
Other Services	235,548	330,911
Supplies and Materials	159,154	318,069

Total Expenses Subject to Congressional Limitations	\$2,662,708	\$3,905,210
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Fiscal Year-1979 \$3,040,000
Fiscal Year-1978 \$4,381,000

Depreciation

Machinery and Equipment	93,753	159,029
Building and Improvements	136,007	163,918
Total	\$2,892,468	\$4,228,157

As of October 1, 1978 in Fiscal Year 1979 Congressional Budget the Vocational Training Units at 10 locations were transferred to BOP. We transferred to them Equipment related to their operations in the amount of \$729,575. Fixed Assets with a reduction by depreciation of \$371,316.

	<u>Fiscal Year 1979</u>	<u>Fiscal Year 1978</u>
Total Assets for Vocational Training		
Machinery and Equipment	\$1,366,358	\$2,048,664
Building and Improvements	5,038,783	4,500,452

10. NON-OPERATING EXPENSES

These expenses are not directly related to the operations of FPI but apply to all inmates of Federal Prisons. The amounts are determined by the Board of Directors, except for accident compensation which is based on actual experience.

11. STATEMENT OF CHANGES IN FINANCIAL POSITIONS

The sub-amounts are restated in a format different from the 1978 report. The new format was suggested by the General Accounting Office. The restructuring of the 1978 figures were subsequently approved by the General Accounting Office audit staff.

FEDERAL PRISON INDUSTRIES, INC.
BALANCE SHEET
AT SEPTEMBER 30, 1976, 1977, 1978, 1979

<u>Assets</u>	<u>Transition Quarter</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>
Current Assets:				
Disbursing cash:				
Operations	\$14,857,710	\$14,382,933	\$ 8,759,957	\$ 9,965,482
New industrial fund	-	-	7,430,859	3,662,291
Special deposits	1,350	2,840	1,390	2,200
Accounts receivable (principally from Government agencies)	8,522,182	11,238,514	11,173,176	14,419,736
Inventories (at cost)				
Finished goods	6,114,286	7,170,207	9,855,233	10,048,527
Work-in-process	5,656,532	6,538,167	8,130,065	7,782,636
Materials and supplies	17,648,329	21,713,370	23,326,063	26,490,308
Total current assets	<u>52,800,389</u>	<u>61,046,031</u>	<u>68,676,743</u>	<u>72,371,180</u>
Plant and equipment (at cost or appraised value)				
Machinery and equipment	22,113,488	24,025,510	26,273,973	27,176,816
Building and improvements	25,915,368	26,404,872	28,032,192	30,167,672
	<u>48,028,856</u>	<u>50,430,382</u>	<u>54,306,165</u>	<u>57,344,488</u>
Less accumulated depreciation:				
Machinery and equipment	12,673,762	13,729,212	14,662,147	15,047,627
Building and improvements	8,599,218	9,272,769	10,011,155	10,811,991
	<u>21,272,980</u>	<u>23,001,981</u>	<u>24,673,302</u>	<u>25,859,618</u>
26,755,876	27,428,401	29,632,863	31,484,870	
Construction-in-process	1,146,221	1,593,420	1,502,352	1,774,907
	<u>27,902,097</u>	<u>29,021,821</u>	<u>31,135,215</u>	<u>33,259,777</u>
Sundry assets	344,114	599,277	826,451	1,201,353
Total assets	<u>\$81,046,600</u>	<u>\$90,667,129</u>	<u>\$100,638,409</u>	<u>\$106,832,310</u>

	<u>Transition Quarter</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>
<u>Liabilities and Capital</u>				
Current liabilities:				
Accounts payable	\$ 2,379,377	\$ 3,231,985	\$ 4,572,014	\$ 5,111,106
Accrued payroll	1,055,719	1,397,313	1,660,402	1,894,572
Other accrued liabilities	922,737	1,291,211	1,401,018	1,535,192
Employees' accrued leave	1,306,681	1,461,442	1,545,506	1,654,722
Contingent liability for price adjustment	164,081	57,320	530,289	-
Deposit fund liability	<u>1,350</u>	<u>2,840</u>	<u>1,390</u>	<u>2,200</u>
Total current liabilities	<u>5,829,945</u>	<u>7,442,111</u>	<u>9,710,619</u>	<u>10,197,792</u>
Capital:				
Initial investment of U.S. Government	4,176,040	4,176,040	4,176,040	4,176,040
Capital contributions received from other Government agencies, net	3,886,894	4,661,923	5,026,097	5,199,868
Retained Earnings	<u>67,153,721</u>	<u>74,387,055</u>	<u>81,725,653</u>	<u>87,258,610</u>
Total capital	<u>75,216,655</u>	<u>83,225,018</u>	<u>90,927,790</u>	<u>96,634,518</u>
Total liabilities and capital	<u>\$81,046,600</u>	<u>\$90,667,129</u>	<u>\$100,638,409</u>	<u>\$106,832,310</u>

FEDERAL PRISON INDUSTRIES, INC.
STATEMENT OF INCOME AND EXPENSE
FOR TRANSITION QUARTER AND FISCAL YEARS ENDED
SEPTEMBER 30, 1977, 1978 AND 1979

	<u>Transition Quarter</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>
Sales to other Government agencies	\$21,599,434	\$86,465,032	\$94,674,010	\$102,762,305
Cost of goods sold	<u>16,786,404</u>	<u>69,461,363</u>	<u>76,203,346</u>	<u>86,213,301</u>
Gross profit	4,813,030	17,003,669	18,470,664	16,549,004
Selling expenses:				
Freight	142,076	560,602	532,040	435,800
Samples	4,442	26,848	52,576	60,561
	<u>146,518</u>	<u>587,450</u>	<u>584,616</u>	<u>496,361</u>
Product division expenses	271,348	1,342,756	1,683,821	1,765,229
Administrative expenses	270,214	1,268,087	1,512,584	1,719,363
Workmen's compensation	142,165	279,645	421,228	419,301
Other expenses	<u>158,545</u>	<u>635,856</u>	<u>585,762</u>	<u>1,308,190</u>
Total operating expenses	<u>988,790</u>	<u>4,113,794</u>	<u>4,788,011</u>	<u>5,708,444</u>
Income from operations	3,824,240	12,889,875	13,682,653	10,840,560
Other income				
Miscellaneous sales	63,783	506,968	485,996	567,736
Sundry income	24,355	492,150	130,741	542,298
Gain on disposition of assets	<u>32,504</u>	<u> </u>	<u> </u>	<u> </u>
	<u>120,642</u>	<u>999,118</u>	<u>616,737</u>	<u>1,110,034</u>
Loss on disposition of assets	-	100,491	54,216	340,677
Income before non-operating expenses	3,944,882	13,788,502	14,245,174	11,609,917
Christmas packages		69,715	75,490	78,126
Meritorious compensation to inmates	335,432	1,992,359	2,495,905	2,966,469
Accident compensation	20,720	121,097	107,024	139,895
Vocational expenses	<u>1,052,913</u>	<u>4,371,997</u>	<u>4,228,157</u>	<u>2,892,468</u>
	<u>1,409,065</u>	<u>6,555,168</u>	<u>6,906,576</u>	<u>6,076,958</u>
Net income	<u>\$ 2,535,817</u>	<u>\$ 7,233,334</u>	<u>\$ 7,338,598</u>	<u>\$ 5,532,959</u>

PRODUCTS AND SERVICES OFFERED BY FPI DIVISIONSDATA/GRAPHICS

Computer programing and data encoding services (keypunch, keyto-disk, key-to-tape). General printing, wood and metal signs, and drafting services.

ELECTRONICS

Wiring devices, electrical cable assemblies, electronic wiring harnesses, printed circuits, electronic systems, support systems, and the remanufacture of vehicular electronics systems.

METALS

Military office furniture, steel shelving, aluminum lockers, military beds, casters, bore brushes, tools, and dies.

SHOE AND BRUSH

Military dress shoes, safety boots and shoes, orthopedic and custom shoes, institutional shoes; wide variety of paint, varnish and maintenance brushes.

TEXTILES

Cotton and wool textiles, canvas, canvas goods, synthetic textile products, mattresses, clothing, and weather parachutes.

WOOD AND PLASTICS

Allenwood walnut furniture, solid wood furniture, molded fiberglass with chrome trim furniture, and plastic laminated particleboard furniture.

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